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TO RUEHC/SECSTATE WASHDC IMMEDIATE 8038
INFO RUCNMR/MERCOSUR COLLECTIVE PRIORITY
RHEBAAA/USDOE WASHDC PRIORITY
RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

C O N F I D E N T I A L ASUNCION 000497

SIPDIS

STATE FOR WHA/BSC MDRUCKER, BFRIEDMAN AND MDASCHBACH,
COMMERCE FOR DOC/ITA LMARKOWITZ

E.O. 12958: DECL: 07/26/2027
TAGS: [ENRG](#) [PREL](#) [KGHG](#) [KSUM](#) [SENV](#) [PA](#)
SUBJECT: US OIL COMPANY SUES PARAGUAY

REF: ASUNCION 0380

Classified By: A/DCM Joan P. Shaker; reasons 1.4 (b) and (d).

¶1. (SBU) Texas-based Crescent Global Oil (Crescent) will likely file a lawsuit against the government of Paraguay August 6 after efforts failed to find a solution to the dispute about the start date of Crescent's exploration contract (reftel). The Ministry of Public Works and Communications (MOPC) officially denied July 29 Crescent's motion to reconsider the resolution which shortened Crescent's exploration contract to expire in December 2009. In its response, the MOPC also made the new argument that Crescent's concession had expired in 2005. (NOTE: The expiration argument is a new element outside the scope of the initial exploration period dispute, an argument the MOPC never made to Crescent prior to July 29. It is also contradictory -- both the May 2008 congressionally-approved exploration contract and the resolution shortening the exploration contract explicitly recognized the validity of the concession. END NOTE.)

¶2. (C) In a last ditch attempt to avoid litigation, Crescent CEO Richard Gonzalez met with MOPC officials and twice with President Fernando Lugo. Gonzalez first met July 30 with Vice Minister of Energy German Fatecha; Fatecha said that it is unfortunate the case is taking a turn for the worse, and reemphasized MOPC's interest in finding a solution. (NOTE: There was no follow-up from the MOPC after the meeting. END NOTE). Gonzalez then met August 3 with President Lugo and detailed step-by-step the chronology of the case; Acting DCM accompanied Gonzalez. Gonzalez told Lugo about the extortion attempt from the MOPC Hydrocarbons Director, explained the lack of due process and arbitrariness of the MOPC's decision, observed that he is not seeking favors but an objective assessment of the case, and emphasized that legal action was Crescent's only remaining recourse. Lugo listened attentively and expressed support, saying "forget about going to court." Lugo asked Gonzalez to return for a 6 a.m. meeting on August ¶3.

¶3. (C) Accompanied by MOPC Minister Efrain Alegre, MOPC Legal Director Baez Infante, and MOPC Director of Hydrocarbons Emilio Boungermini, Lugo met for one hour with Gonzalez on August 3 to discuss the case. Lugo told Crescent's Gonzalez that Minister Alegre was responsible for the case, and Alegre, in front of Lugo, told Crescent to "take it to court." (NOTE: Embassy did not send a representative to the meeting because Lugo asked Gonzalez to come alone. END NOTE).

¶4. (C) COMMENT: If Crescent files a lawsuit, it will pursue a very aggressive legal and public relations campaign. The MOPC repeatedly expressed willingness to work as a partner in finding a solution but never took any conciliatory action. Crescent is in this to win, and will try to protect its USD 8

million investment (to date) and tie up the concession in prolonged litigation. Crescent's perception is that personal, economic, and ideological interests are attempting to divert its concession to other players. In the worst case scenario, corruption is at work here. In the best case, the rules of the game are changing mid-way through in spite of significant Embassy advocacy. In either case, the interests of this U.S. company are at risk. END COMMENT.

Holloway